

Media release

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Leading Index sustains recent boost

The six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, lifted from +0.51% in October to +0.69% in November.

Westpac's Chief Economist, Bill Evans, commented, "This is a strong above trend reading and, following the solid result in October, points to some of the headwinds to growth evident earlier in the year having eased. That said, there are still key negatives around housing, household incomes and the consumer which are likely to contain any upswing in 2018."

"While the Index appears to have recovered from the slow patch in June /August, it is still well below the levels it enjoyed over the six months to May when the average growth rate reading was +1.12%.

"In June, the growth rate printed -0.41% compared to November's reading of +0.69%.

"The main component contributions to the lift over this period have been: commodity prices in AUD terms (+0.38ppts); dwelling approvals (+0.20ppts); the Westpac MI Consumer Sentiment expectations Index (+0.19ppts); the Westpac MI Unemployment Expectations Index (+0.18ppts); a steeper yield curve (+0.18ppts); and the S&P/ASX200 Index (+0.09ppts).

Partially offsetting these positive changes were reduced contributions from aggregate monthly hours worked (–0.09ppts) and US industrial production (–0.03ppts).

“The Reserve Bank Board next meets on February 6. In the minutes to the December Board meeting the Board noted that: “How far and when stronger conditions in the economy and labour market feed into higher wage growth and inflation remained important considerations in shaping the outlook.” The Bank’s own underlying inflation forecasts are currently 1.75% in 2018 and 2% in 2019. It expects wages growth to increase gradually over the next year. Prospects for an imminent rate move are very small.

“However markets and most commentators are expecting rates to start increasing in the second half of 2018.

“Westpac has a more patient view. Rates are expected to remain on hold in both 2018 and 2019,” said Bill Evans.

Issued by: Westpac Banking Corporation

Bill Evans

Dr. Tim Robinson

Chief Economist

Melbourne Institute

Westpac Banking Corporation

Ph: (61-3) 83442325

Ph: (61-2) 8254 8531